



# Full Year 2021 Results

## Participants



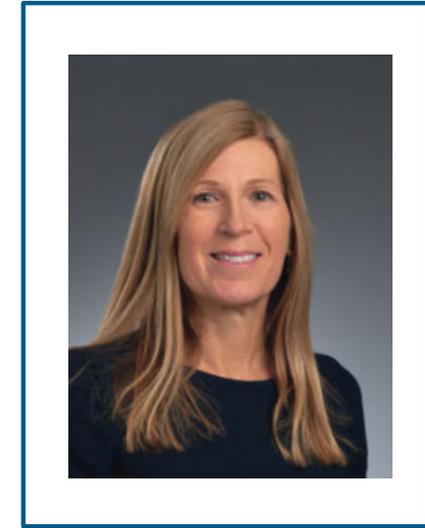
**Kevin J. Wheeler**

Chairman and  
Chief Executive Officer



**Charles T. Lauber**

Executive Vice President  
and Chief Financial Officer



**Patricia K. Ackerman**

Senior Vice President, Investor  
Relations, Corporate Responsibility  
& Sustainability

## Forward Looking Statements

This presentation contains statements that we believe are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally can be identified by the use of words such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” “continue,” “forecast,” “guidance” or words of similar meaning. All forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this presentation. Important factors that could cause actual results to differ materially from these expectations include, among other things, the following: the Company’s ability to continue to obtain commodities, components, parts and accessories on a timely basis through its supply chain and at expected costs; negative impacts to demand for the Company products, particularly commercial products, and its operations and workforce, as a result of the severity and duration of the COVID-19 pandemic; inability of the Company to implement or maintain pricing actions; an uneven recovery of the Chinese economy or decline in the growth rate of consumer spending or housing sales in China; negative impact to our businesses from international tariffs, trade disputes or geopolitical differences; potential weakening in the high efficiency boiler market segment in the U.S.; substantial defaults in payment material reduction in purchases by or the loss, bankruptcy or insolvency of a major customer; a weakening in U.S. residential or commercial construction or instability in our replacement markets; foreign currency fluctuations; inability to successfully integrate or achieve our strategic objectives resulting from acquisitions; competitive pressures on our businesses; the impact of potential information technology or data security breaches; changes in government regulations or regulatory requirements; and adverse developments in general economic, political and business conditions in the key regions of the world. Forward-looking statements included in this presentation are made only as of the date of this presentation, and the company is under no obligation to update these statements to reflect subsequent events or circumstances. All subsequent written and oral forward-looking statements attributed to the company, or persons acting on its behalf, are qualified entirely by these cautionary statements. This presentation contains certain non-GAAP financial measures as that term is defined by the SEC. Non-GAAP financial measures are generally identified by “Adjusted” (Adj.) or “Non-GAAP.”

# Full Year Messages

Record sales of \$3,539M and record EPS of \$3.02

North America sales up 19% on pricing actions and robust demand

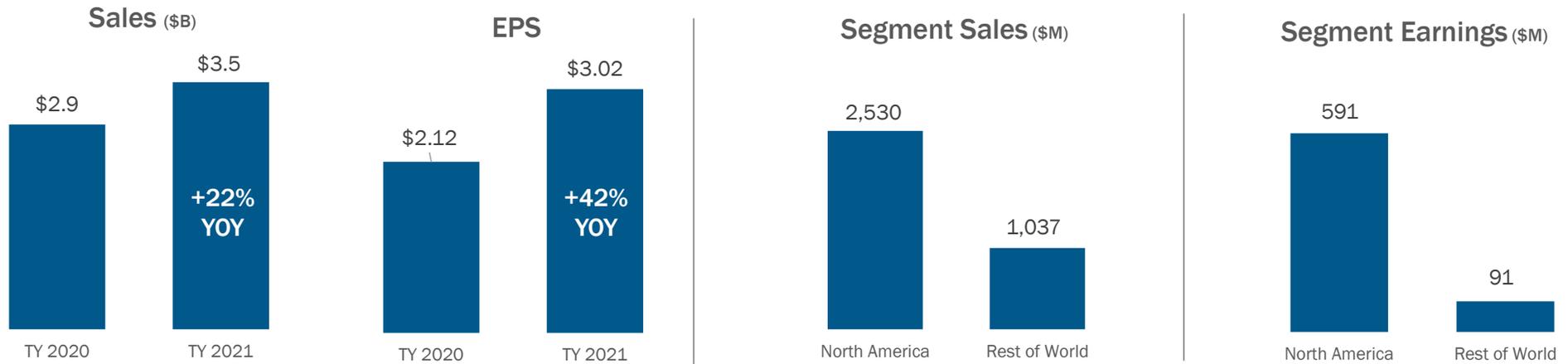
China operating margins of 9%

Effective operational execution while navigating macro challenges

Acquired Giant of Canada, which will be accretive to EPS in 2022

Returned \$537 million of capital to shareholders

# Full Year Performance and Highlights



## Highlights

- Net sales ↑ 22 percent to \$3,539M
- EPS ↑ 42 percent to \$3.02

## North America

- Sales ↑ 19 percent on price increases and higher volumes
- Giant added \$23 million of sales
- Estimated 85 percent of water heater & boiler demand is replacement

## Rest of World

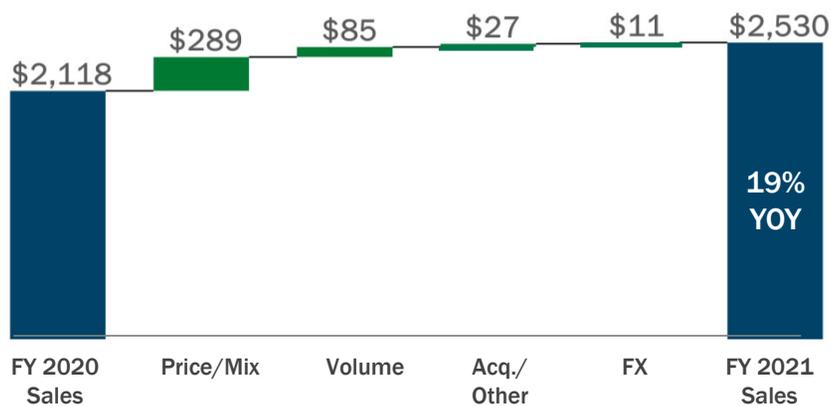
- 30 percent sales increase was driven by growth across every major product category in China, robust demand in India amid COVID recovery

# Our Space and Water Heating Products Enable Smaller Carbon Footprint



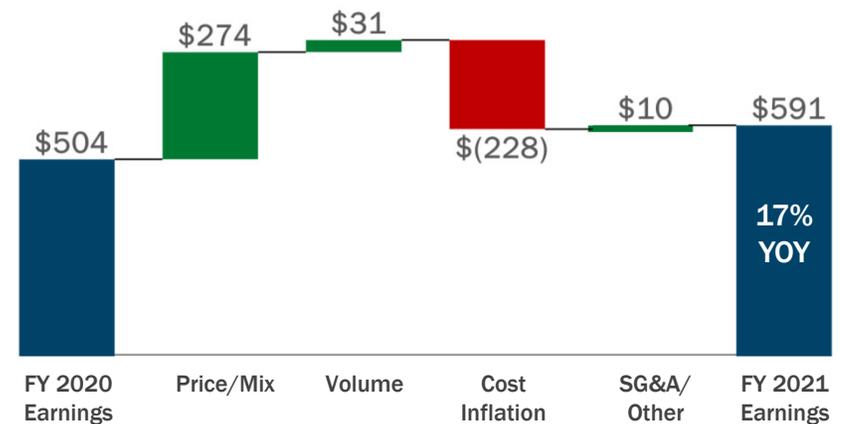
# Full Year North America Segment

Segment Sales (\$M)



- Sales increased primarily as a result of water heater price increases
- Higher volume of \$85 million in water heaters and boilers was driven by strong replacement and new construction demand
- Acquisitions added \$27 million to sales

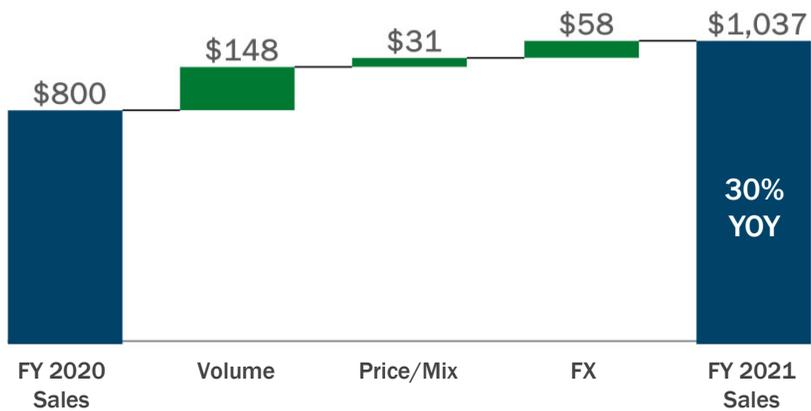
Segment Operating Earnings (\$M)



- Income was higher due to inflation-related price increases and volume, largely offset by higher materials and freight costs
- Maintained strong profitability despite cost pressures; operating margin down 40 basis points to 23.4%
- Pricing actions lagging rapidly rising steel costs

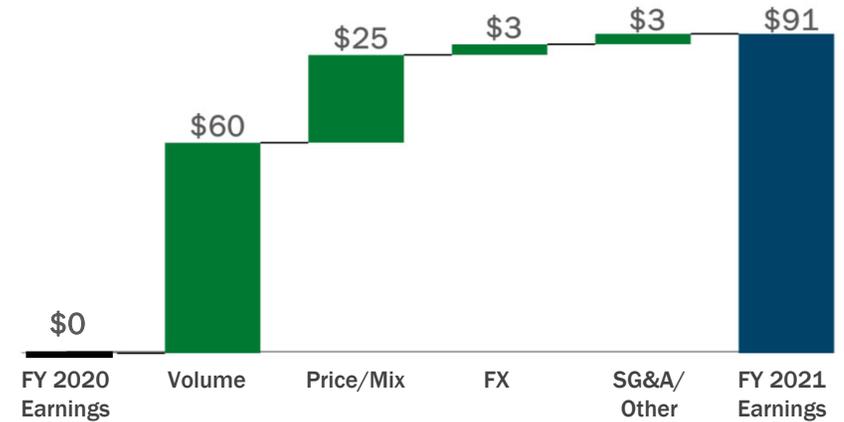
# Full Year Rest of World Segment

Segment Sales (\$M)



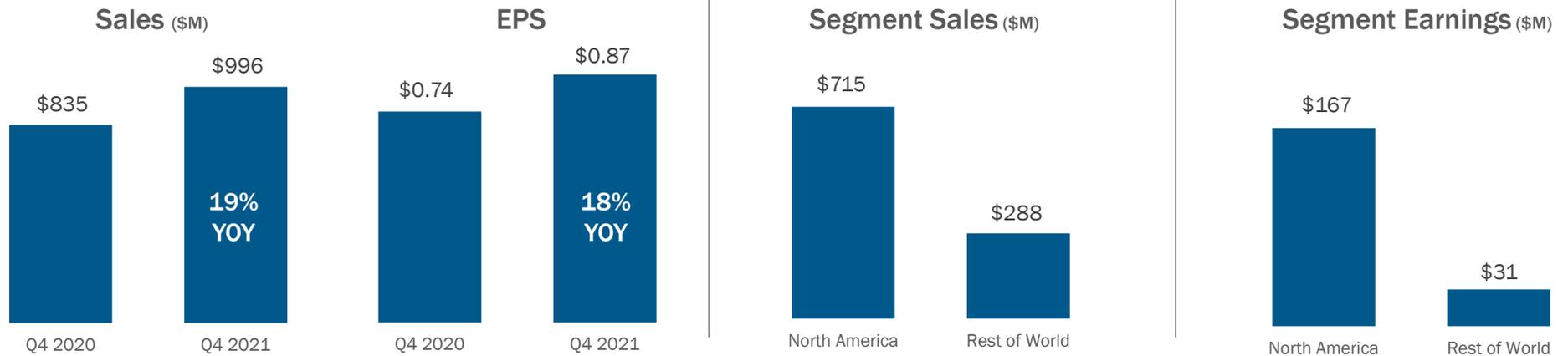
- ~62 percent of the sales increase was due to higher volume
- China: Higher volume of \$132 million represented growth in all major product categories; currency translation added \$58 million
- India: Higher sales of \$10 million contributed to the revenue increase

Segment Operating Earnings (\$M)



- Income was significantly higher due to higher volumes and favorable product mix
- China operating margins were ~9 percent

# Fourth Quarter Performance and Highlights



## Highlights

- Sales ↑ 19 percent to \$995.5M
- EPS ↑ 18 percent to \$0.87

## North America

- Boilers/water heaters/water treatment sales ↑ 27 percent on price increases
- Giant added \$23 million in sales

## Rest of World

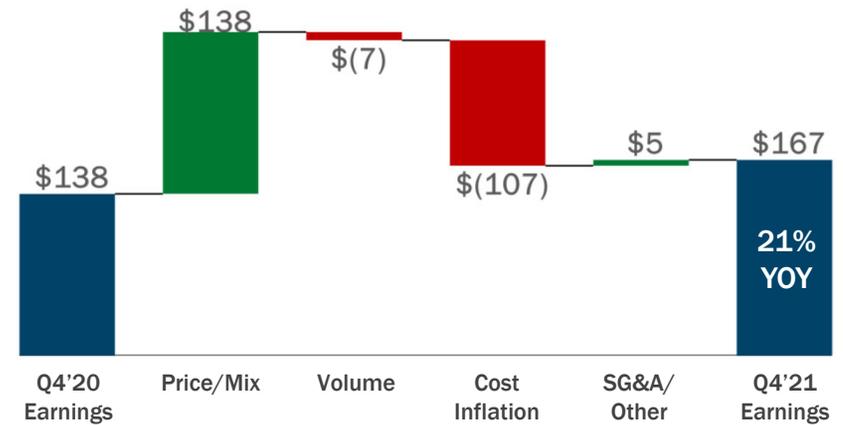
- 3 percent sales growth against a strong comp was driven by customers trading up in China

# Fourth Quarter North America Segment

Segment Sales (\$M)



Segment Operating Earnings (\$M)

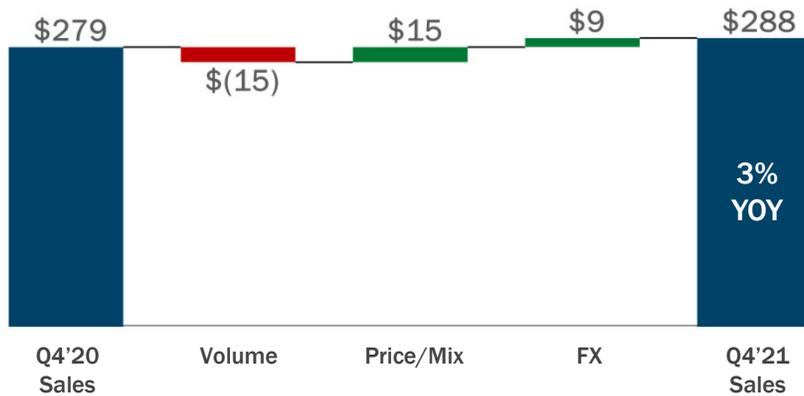


- Sales increased primarily as a result of water heater price increases
- Lower volume of in water heaters due to strong comp in Q4 2020
- Acquisition added \$25 million to sales

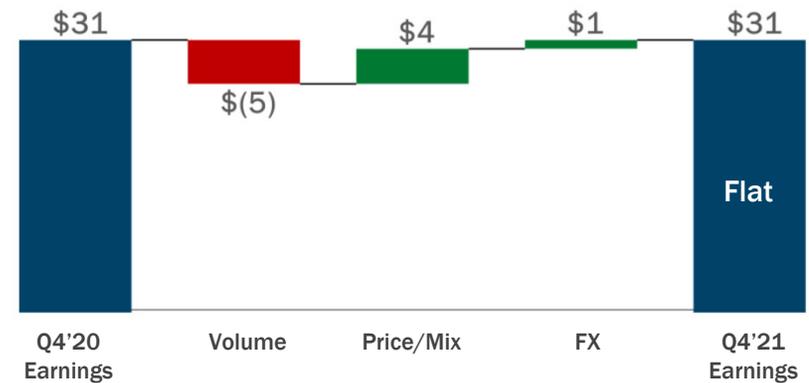
- Income was higher due to inflation-related pricing actions, largely offset by higher materials and freight costs
- Despite significant cost headwinds, strong margin performance of 23.3%, down 130 basis points.

# Fourth Quarter Rest of World Segment

Segment Sales (\$M)



Segment Operating Earnings (\$M)



- China: Favorable mix of \$15 million as customers traded up primarily in our water heater categories was offset by lower volumes; currency translation added \$9 million

- Flat earnings due to lower volumes that were offset by favorable product mix
- China operating margins were 11 percent

# Cash Flow and Liquidity<sup>1</sup>

**\$631M**

Cash balance<sup>2</sup>

**9.7%**

Debt to capital ratio

**\$435M**

Net cash position

**~5.1M**

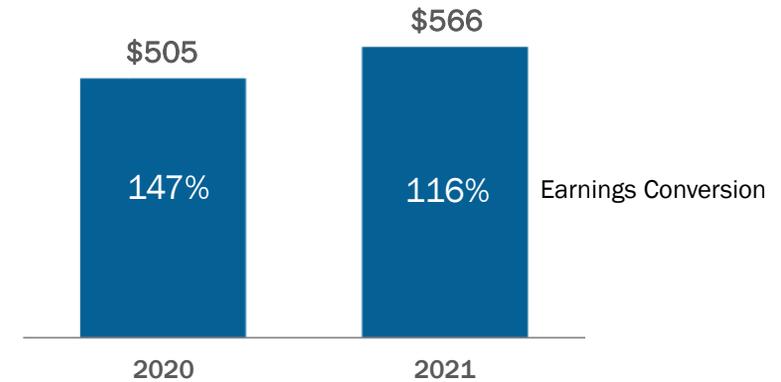
Shares repurchased in 2021 totaling ~\$367M

**+8%**

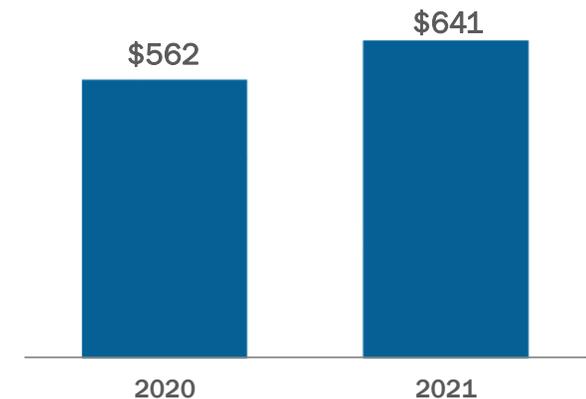
Quarterly dividend increase approved in October, to \$0.28 per share



## Free Cash Flow (\$M)



## Cash Flow from Operations (\$M)



1. As of Dec. 31, 2021

2. Includes cash, cash equivalents and marketable securities

# Capital Allocation Priorities

Priority	Comments
<b>Organic Growth</b> <ul style="list-style-type: none"><li>• CapEx</li><li>• New product development and R&amp;D</li></ul>	<ul style="list-style-type: none"><li>• Opportunities for organic growth in all our businesses and geographies</li><li>• Invested \$75 million in capital expenditures in 2021</li><li>• R&amp;D totaled \$94 million, versus \$81 million 2020</li></ul>
<b>Acquisitions</b>	<ul style="list-style-type: none"><li>• Recent transactions include Giant and Master Water</li><li>• Disciplined focus on deals that enable geographic growth, expand/grow the core, build adjacencies which return cost of capital in third year</li><li>• Maintain active pipeline</li></ul>
<b>Dividends</b> <ul style="list-style-type: none"><li>• Philosophy: growing, competitive sustainable dividend</li></ul>	<ul style="list-style-type: none"><li>• Increased 8 percent in October</li><li>• Five-year CAGR of 17 percent</li><li>• 30 consecutive years of dividend increases</li></ul>
<b>Share Repurchase</b>	\$367 million in 2021

## 2022 Outlook and Assumptions\*

(\$M, except per share data)

Revenue Increase	16% to 18%
U.S. Residential Water Heater Volume	~ -2%
Commercial Water Heater Volume	Flat
China Sales Increase (Local Currency)	~5%
North American Boiler Sales Growth	~10%
North American Water Treatment Growth	13% to 14%
Free Cash Flow	\$500M to \$525M
Capital Expenditures	\$75M to \$80M
Depreciation & Amortization	~\$80M
Corporate/Other Expense	~\$55M
Effective Tax Rate	23.5% to 24%
Share Repurchase	~\$400
Share Count - Diluted	~157M

	2022 Guidance*	2021
<b>Diluted EPS (GAAP)</b>	\$1.56-1.76	\$ 3.02
Estimated pension settlement expense <sup>1</sup>	1.73	-
Pension expense (income) <sup>2</sup>	<u>0.06</u>	<u>(0.06)</u>
<b>Adjusted EPS</b>	<b><u>\$3.35-3.55</u></b>	<b><u>\$ 2.96</u></b>
<sup>1</sup> Includes pre-tax pension settlement expense:		
North America segment operating earnings	378.3	-
Corporate expenses	66.7	-
<sup>2</sup> Includes pre-tax pension expense (income):		
North America segment operating earnings	10.5	(10.5)
Corporate expenses	1.3	(2.6)

- North American segment margin expected to be between 22.25% and 22.75%, excluding pension expense
- Rest of World segment margin expected to be approximately 10.00%
- Reflect the effects of five announced inflation-related price increases in 2021 compounding to ~50% for water heaters

## 2022 Key Strategic Priorities

Expansion of decarb  
product and service  
portfolio

Invest in and expand  
our global water  
treatment capabilities

Strategic acquisitions  
and deploying capital  
effectively



## Free Cash Flow

(\$ in Millions)

The following is a reconciliation of reported cash flow from operating activities to free cash flow (non-GAAP):

	Twelve Months Ended December 31,	
	2021	2020
<b>Cash provided by operating activities (GAAP)</b>	<b>\$ 641.1</b>	<b>\$ 562.1</b>
<b>Less: Capital expenditures</b>	<b><u>(75.1)</u></b>	<b><u>(56.8)</u></b>
<b>Adjusted EPS (Non-GAAP)</b>	<b><u>\$ 566.0</u></b>	<b><u>\$ 505.3</u></b>

## 2022 Adjusted EPS Guidance and 2021 Adjusted EPS

The following is a reconciliation of diluted EPS to adjusted EPS (non-GAAP) (all items are net of tax):

	Twelve Months Ended December 31,	
	2022	2021
<b>Dilute EPS (GAAP)</b>	\$1.56 – 1.76	\$ 3.02
Estimated pension settlement charge	1.73 <sup>(1)</sup>	-
Pension expense (income)	<u>0.06<sup>(2)</sup></u>	<u>(0.06)<sup>(3)</sup></u>
<b>Adjusted EPS (Non-GAAP)</b>	<b><u>\$3.35 – 3.55</u></b>	<b><u>\$ 2.96</u></b>

<sup>(1)</sup> Includes pre-tax pension settlement charges of \$378.3 million and \$66.7 million, within the North America segment and Corporate expenses, respectively.

<sup>(2)</sup> Includes pre-tax pension expense of \$10.5 million and \$1.3 million, within the North America segment and Corporate expenses, respectively.

<sup>(3)</sup> Includes pre-tax pension income of \$10.5 million and \$2.6 million, within the North America segment and Corporate expenses, respectively.